2016 Marketing Technology Trends and Merger & Acquisition Forecast

Forrester forecasts that advertisers will spend $77 billion on interactive marketing – as much as they do on television today in 2016. Search marketing, display advertising, mobile marketing, email marketing, and social media will grow to 35% of all advertising spend within the next five years.

This is the sea change that is not only affecting marketing spend but is consequently determining which marketing technology providers will prosper and realize superior valuation multiples in 2016 and the immediate years ahead. A useful way to put these trends into perspective is to examine them in the context of the marketing funnel:

1) **Data** – At the top of the funnel it all begins with data enabling the targeting necessary to achieve marketing ROI objectives. Although the term Big Data and its impact on marketing has been a chief topic of discussion in recent years, the actual utility in leveraging Big Data to drive ROI has been more theoretical than practical…until now. Database build companies are developing the real world capability to incorporate, integrate, attribute, and manage on and offline data across platforms and devices including social media behaviour and related transactional activity. We are in the very earliest stage of this capability, and iterative advances in the coming years will translate into significant competitive advantage for marketers that can harness this technology in driving the balance of the marketing funnel.
An observance about the competitive landscape here; the market effect/potential of these technologies is so enormous and the intellectual quotient required to harness such data so demanding that as in the earliest stages of the development of other marketing/advertising technologies (i.e. social media), marketing database businesses with leading edge "market ready" Big Data marketing functionality will be in the highest demand and be able to command not only premium pricing but M&A market multiple premiums.

2) **Analytics** - The corollary to data, traditional segmentation routines and predictive modelling are being transformed, the result of incorporating and overlaying complex sets of on-line data on traditional off-line data sets. To date, much on-line analytics functionality is siloed in the various on-line channels, such as web, social media, and mobile transactional activity. True predictive modelling where individuals can be identified in traditional off-line or web to off-line response, is still more art than science in social and display, where an amalgam of personal identifier approaches using cookies and IP addresses are employed. As these techniques advance and mature, sometimes haltingly in light of industry and governmental privacy initiatives, the efficacy of predictive modelling incorporating and integrating on and off-line data will be such that competitive pressure will require marketers to employ a holistic view and approach to planning and executing marketing programs.

3) **Strategy** – The third of the five marketing funnel elements, strategy is indeed the inflection point. Because of the shift in marketing spend from off-line to on-line channels, and especially to mobile display, strategy is now compelled to not only incorporate the effects of this shift on data and analytics but how to communicate efficiently given technological developments at the bottom of the funnel

such as display ad blockers. Hyper-personalization will be the key to marketing ROI. To achieve this, marketers will be compelled to leverage integrated on and off-line data to determine consumer behaviour, not just in the right offer at the right time at the right price, but just in time in the right channel.

4) **Content** – Content is the key to hyper-personalization. Marketers are struggling to keep up with the velocity of technological change in how the public consumes information and entertainment. Website or search behavioural targeting display, mobile video, and native advertising, where an ad is presented in informational context, are examples of hyper-personalized content formats that marketers/agencies must be able to create and deliver to achieve their ROI objectives in the digital environment. According to Mark Sullivan writing in VentureBeat, "In just eight years, smartphones have taken over the world. In the past 3.5 years smartphone media consumption has surpassed that of television. Mobile commerce jumped 123 percent in the first quarter of this year (2015). These trends will continue in 2016".

   Clearly, the shift in where and how content is consumed to mobile devices (i.e. smartphones and tablets) is spotlighting the importance of content creation and formatting. Not surprisingly, providers of this know-how and technologies were a leading segment in marketing tech M&A activity in 2015 and will continue to be in 2016.

5) **Delivery** – At the bottom of the marketing funnel hand-held devices represent a paradigm shift in not only how consumers are accessing information, but how they are transacting. As commerce is increasingly transacted via mobile devices, technologies are proliferating that facilitate formatting across devices and enable real-time targeted offers (i.e. Bluetooth Low Energy (BLE)). Mobile payment technologies are finally gaining the traction that has been the case in Asia and Europe for years. Display ad-blockers have and will continue to become a serious hindrance to marketers that have not established permission based one-to-one relationships with prospects.

   In a new report the International Data Corporation (IDC) has forecast mobile technology spending across all industries will top $1 trillion within the next three years. Jordan Edmiston reports that Media and technology deals increased to 148 transactions in 2015 from 141 in 2014 and transaction volume reached $6.5 billion from $5 billion. The key stat here, however, is that one deal, the sale of Nokia's HERE for $3.1 billion skews the results. The average transaction size without that one deal was $23.1 million. This is indicative of a trend to be discussed in the following.

2016 Marketing Technology Mergers & Acquisition Forecast

1) Despite global economic and security concerns, and an uncertain U.S interest rate environment, marketing technology M&A was very strong in 2015. We expect this strength to continue in 2016, primarily due to the sea change discussed above in the shift of marketing and advertising dollars to digital format and the explosion of the hand-held device market. Marketers/agencies are compelled to "technology up" to compete and must do so by forging strategic alliances (vendor relationships) with partners all along the marketing funnel.

2) The explosion of digital and device technologies has spawned a plethora of new businesses, many of which are being acquired by the large players as start-ups with little revenue. Thousands of small ad-tech firms have sprung up in the past few years and some of these will be acquired by larger marketing technology companies as we will start seeing a consolidation long predicted.

3) Concurrent with the rise of digital focused marketing technology business, thousands of more traditional marketing agencies and marketing technology business will come on the market as boomer age owners plan for retirement. AdMedia's 2016 Annual Survey indicates that 54% of respondents will seek to be acquired in 2016 versus 40% in 2015. The confluence of these trends will temper the rise of valuation multiples, especially businesses in the under $20 million revenue range (current average valuation multiple is 1.5x revenue. Source: Bakery-Noyes). It will also require that such businesses be well-run, with a competitive edge (i.e. technology, attractive customer-base) that produces growth and/or profitability in excess of market norms. Prospective sellers are well advised to research and target potential strategic acquirers well before marketing their businesses.

4) According to Results International deals in the marketing automation sector have more than doubled for the first three quarters of this year (2015) compared to the same period of 2014 with a rise from 8% to 21% of all global ad tech and marketing tech deals. This is a really big deal. Marketing automation technology essentially organizes all of the five segments of the marketing funnel and has become indispensable for marketers planning and executing campaigns of any size and complexity. The valuations of such companies (recently 10-13x revenue) reflect this trend.

5) Cross-channel marketing is the standard today and single channel marketers (both off and online) are repositioning themselves. According to Liz Morrell writing in Mar Tech, "deals in the advertising platform space fell dramatically down from 35% in the second quarter to 7% in the third quarter (2015). This is thought to reflect a growing emphasis on cross-channel marketing automation for customer engagement as well as ad platforms repositioning themselves as broader marketing automation businesses.

6) Consistent with our analysis of marketing trends, Morell continues, "Mobile, e-commerce and video were three sectors that gained market share in the third quarter (2015) whilst deals involving social media technology nearly halved, dropping from 20% of the market in Q2 to 11% in Q3."

7) Expected valuation multiples range from 6.5x to 8.5x EBITDA (source: AdMedia Partners' 2016 Survey). Ad Tech, Analytics and Mobile top the list with shopper, experiential marketing and market research at the bottom. Digital agencies, social marketing, custom content, CRM/Database marketing, and healthcare all are bringing 7.5x EBITDA expected multiples. It is our experience however, that the elasticity of these multiples are increasing (on average 2x plus or minus the expected EBITDA) from 1x as the market begins to shift to a buyer's market.

The key takeaway from our 2016 Marketing Technology M&A forecast is that the velocity of technology change will be a significant challenge for owners of smaller businesses with limited resources to remain competitive in the years ahead. It will be incumbent upon owners to examine core competencies and determine how incorporating technology will enable them to successfully achieve their growth objectives. Concurrently, the marketing technology upheaval has spawned thousands of new businesses competing for constrained marketing budgets. Consolidation will be a significant trend beginning in 2016 as the larger players opt to acquire rather than build in the coming environment.